

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE NORTH HOPKINS)	
WATER DISTRICT OF HOPKINS COUNTY,)	
KENTUCKY, FOR APPROVAL OF CONSTRUCTION,)	CASE NO. 10168
FINANCING AND INCREASED WATER RATES)	

O R D E R

On November 6, 1987, the Commission entered an Order in Case No. 9833, The Application of North Hopkins Water District For Approval of Construction, Financing, and Increased Water Rates, dismissing the construction and financing portions of the application and granting an adjustment to North Hopkins Water District's ("North Hopkins") water service rates excluding the revenues and costs associated with the proposed construction. The construction and financing portions of the application were dismissed due to North Hopkins' inability to complete its application within the 10-month time limitation required by KRS 278.190(3).

On February 16, 1988, North Hopkins filed a Motion to reopen Case No. 9833, and requested an Interim Order granting a Certificate of Public Convenience and Necessity. The Commission decided in lieu of reopening Case No. 9833, that a new case be established and the entire record of Case No. 9833 be incorporated herein by reference. Furthermore, pursuant to the Interim Order issued on February 19, 1988 in this proceeding, North Hopkins has been granted a Certificate of Public Convenience and Necessity for the proposed construction project.

North Hopkins filed on March 17, 1988 a revised rate study using the same test year as the Staff Report. On April 28, 1988, North Hopkins filed its response to the Commission's information request dated April 8, 1988. The Commission has before it the complete record to decide the water service rates and the financing portions of North Hopkin's application.

The construction cost of the approved project is \$1,439,695, which requires total funding of \$1,710,400. North Hopkins has obtained FmHA loans in the aggregate amount of \$1,303,500 in addition to a FmHA grant of \$74,000. North Hopkins will also receive a Hopkins County Coal Severance Grant of \$150,000 and customer contributions through tap-on fees of \$45,400. The remaining required funding will be obtained through a \$137,500 loan from a local bank.

On February 11, 1987, Commission Staff conducted a field review of North Hopkins' test period financial records and issued its report on May 12, 1987. In its report, Staff recommended that North Hopkins be granted an additional \$86,838 in operating revenues from rates over adjusted test-year revenues of \$152,495 based upon the inclusion of revenues and costs associated with the construction project. In its Order in Case No. 9833 entered on November 6, 1987, the Commission allowed an increase in rates of \$4,530 over adjusted test-year revenues of \$54,647 based upon North Hopkins' revenue requirement exclusive of the construction project.

The original rate study provided in North Hopkins' application was based upon 184 existing customers and 456

additional customers due to the construction, an increase of 248 percent. Since the construction project as bid had to be reduced by approximately \$86,000, the revised rate study was based upon 184 existing customers and 439 additional customers, an increase of 239 percent. North Hopkins' revised rate study utilized Staff's adjusted amounts per the Staff Report. The Commission agrees with and accepts North Hopkins' adjustments to the Staff Report except for the items discussed in the following sections.

Operating Revenues

North Hopkins' present rates were designed to produce annual operating revenue from water sales in the amount of \$59,177. North Hopkins has proposed to connect 439 new customers to its system.

The Commission has accepted North Hopkins' estimated usage allowance for the new customers. Based on North Hopkins' usage allowance, the 439 new customers will increase operating revenues from water sales in the amount of \$102,593 annually, at test year rates. Therefore, as a result of the addition of new customers, North Hopkins' normalized revenues from water sales is \$157,365.

Other Revenue

Per the Staff Report, North Hopkins' adjusted test year other revenue is \$2,440. Since the adjusted figure is based upon 1.6 percent of test-year gross water sales, the Commission is of the opinion that this account should be increased by \$78 to reflect the revised amount of operating revenues.

Accounting and Collecting Labor Expense

Per the Staff Report, North Hopkins' adjusted test year accounting and collecting labor expense is \$7,576. Due to the decrease in the number of additional customers, the Commission is of the opinion that this expense should be decreased by \$65.¹

Uncollectible Accounts Expense

The adjusted uncollectible accounts expense per the Staff Report is based upon .6 percent of test-year gross water sales. The Commission is of the opinion that the adjusted test year amount of \$915 should be increased by \$29 to reflect the revised amount of gross operating revenues.²

Taxes Other Than Income Taxes Expense

Per the Staff Report, the adjusted test year taxes other than income taxes expense is \$2,054. The Commission is of the opinion that this amount should be increased by \$42 due to aforementioned

¹ 15 hours per month x 239¢ = 35.85 hours
35.85 hours x \$4 per hour x 12 months = \$ 1,721
Less adjusted amount per the Staff Report <1,786>
\$ 65

² Gross Operating Revenues (Revised) \$157,365
x .006
\$ 944
Less amount per the Staff Report <915>
\$ 29

adjustment to the accounting and collecting labor expense and the revised meter reading labor expense.³

Depreciation Expense

North Hopkins proposed in its revised rate study to increase the depreciation expense per the Staff Report of \$48,122 by \$7,608 due to the increase in construction costs since the filing of the application. However, North Hopkins also proposed in the revised rate study to exclude the adjusted depreciation expense in determining revenue requirements.

The Commission is of the opinion that depreciation expense is a true cost to the District and should be included in the revenue requirement determination. Therefore, the adjusted test year

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3	FICA:		
	Adj. Meter Reading Labor Expense	\$12,987	
	Adj. Accounting & Collecting Labor Exp.	<u>7,511</u>	
	Total		\$20,498
	Current FICA rate	x <u>7.51%</u>	\$ 1,539
	Federal & State Employment Tax:		
	Adj. Meter Reading Labor Expense		
	(limited to \$8,000)	\$ 8,000	
	Adj. Accounting & Collecting Labor Exp.	<u>7,511</u>	
	Total		\$15,511
	Unemployment Tax Rate	x <u>3.2%</u>	496
	PSC Assessment		<u>61</u>
	Total		\$2,096
	Less Adj. amount per the Staff Report		<u><2,054></u>
			<u>\$ 42</u>

depreciation expense per the Staff Report has been increased by \$6,258.⁴

After consideration of the aforementioned adjustments, the Commission finds North Hopkins' adjusted test period operations to be as follows:

	Per the Staff Report	Adjustments	Adjusted Test Period
Operating Revenues	\$ 154,935	\$ 4,948	\$ 159,883
Operating Expenses	134,304	4,831	139,135
Net Operating Income	<u>\$ 20,631</u>	<u>\$ 117</u>	<u>\$ 20,748</u>

REVENUE REQUIREMENTS

With regard to the proposed bond issuances, at the time of loan approval by FmHA, the interest rate in effect was 9 1/8 percent. However, since loan approval in September 1983 the interest rate has decreased. Therefore, since North Hopkins has the option of the lower interest rate in effect at the time of loan approval or the time of loan closing, the Commission has utilized the current FmHA interest rate of 7 3/8 percent to determine North Hopkins' revenue requirement.

4	Test Period Actual		\$ 9,623
	Total Funding Amount of Construction	\$1,710,400	
	Less: Interim Financing	<50,000>	
	Land & R/W Acq.	<2,750>	
		<u>\$1,657,650</u>	
	Composite Depreciation Rate	2.7%	44,757
	Allowed Depreciation Expense		<u>54,380</u>
	Less: Depreciation Expense per the Staff Report		<48,122>
			<u>\$ 6,258</u>

North Hopkins proposed in the revised rate study to pay the \$137,500 bank loan over a 10-year period. The Commission is of the opinion that the assets purchased with the loan will have an approximate life of 40 years and, thus, in order to match the customer use of the assets with the funding, the loan should be amortized over a 40-year period for rate-making purposes.

North Hopkins' proposed rates per the revised rate study will produce \$246,077 of operating revenues on an annual basis, an increase of 56.37 percent. These rates will provide a Debt Service Coverage ("DSC") of .92x⁵ and a net cash flow of \$43,808.⁶ The Commission is of the opinion that since the cash flow generated by the proposed rates will allow North Hopkins to meet its operating expenses and service its debt, the proposed rates shall be approved. However, the Commission hereby advises North

5	Proposed Operating Revenues from rates	\$246,077
	Other Revenue	2,518
	Interest Income	5,235
	Total	<u>\$253,830</u>
	LESS: Operating Expenses	<139,135>
	Net Income Available for DSC	<u>\$114,695</u>

5-yr. Average Principal and Interest Payments:	
1982 Bonds	\$ 13,390
Series A Bonds	88,416
Series B Bonds	10,734
Bank Loan	12,727
Total	<u>\$125,267</u>

DSC:
 $\$114,695 - \$125,267 = .92$

6	Net Income Available for DSC	\$114,695
	ADD: Depreciation	54,380
	LESS: Debt Service Coverage	<125,267>
		<u>\$ 43,808</u>

Hopkins to closely monitor its financial position and, should the rates approved herein become insufficient to meet its operating expenses and debt service requirements, North Hopkins should take appropriate measures to alleviate the difficulty.

RATE DESIGN

In its Order in Case No. 9833 dated November 6, 1987 the Commission approved a proposed change in North Hopkins' rate design. Therefore, a change in rate design has not been considered in this case.

North Hopkins based its proposed rates for its current and new residential customers on an average monthly usage of 4,500 gallons per customer. The Commission used the billing analysis provided by North Hopkins in calculating the rates for its current residential customers and used the 4,500 gallon average for the new residential customers.

NON-RECURRING CHARGES

North Hopkins proposed tap fees based on estimated usage and FmHA's recommendations. The Commission finds that tap-on charges should be applied equally per meter size. The variance proposed for 1 inch meter installations should be averaged among all like connections.

FINDINGS AND ORDERS

The Commission, after consideration of the evidence of record, and being advised, is of the opinion and finds that:

1. The financing plan proposed by North Hopkins is for lawful objects within its corporate purposes, is necessary and appropriate for and consistent with the proper performance of its

service to the public, and will not impair its ability to perform these services. The financing plan is reasonably necessary and appropriate for such purposes and should, therefore, be approved.

2. The rates proposed by North Hopkins and presented in Appendix A will produce gross annual revenue from metered water sales of \$246,077. These revenues will be sufficient to meet North Hopkins' operating expenses found reasonable for rate-making purposes, service its debt, and provide a reasonable surplus.

IT IS THEREFORE ORDERED that:

1. North Hopkins' financing plan consisting of FmHA loans of \$1,303,500, FmHA grant of \$74,000, Hopkins County Coal Severance Grant of \$150,000, and customer contributions of \$45,400 is hereby approved.

2. The rates proposed by North Hopkins and presented in Appendix A are approved for services rendered by North Hopkins on and after the date of this Order.

3. Within 30 days from the date of this Order, North Hopkins shall file with the Commission its tariff sheets setting out the rates approved herein.

4. If the actual interest rate at the time of bond issuance is materially different than the one used in the application, North Hopkins shall apply for appropriate changes in its rates.

Nothing contained herein shall be deemed a Warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 10th day of June, 1988.

PUBLIC SERVICE COMMISSION

Richard D. Herman, Jr.
Chairman

Robert M. Davis
Vice Chairman

James M. Williams
Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 10168 DATED JUNE 10, 1988

The following rates and charges are prescribed for the customers in the area served by North Hopkins Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

MONTHLY RATES

First 2,000 gallons	\$14.50 Minimum Bill
Next 2,000 gallons	7.00 per 1,000 gallons
Next 3,000 gallons	5.00 per 1,000 gallons
Next 3,000 gallons	4.00 per 1,000 gallons
Over 10,000 gallons	2.50 per 1,000 gallons

MONTHLY MINIMUM RATES

<u>Meter Size</u>	<u>Minimum Usage</u>	<u>Minimum Charge</u>
5/8 Inch	2,000 gallons	\$14.50
3/4 Inch	3,000 gallons	21.50
1 Inch	5,000 gallons	33.50
1 1/2 Inch	10,000 gallons	55.50
2 Inch	15,000 gallons	68.00

TAP FEES

CHARGE

5/8 Inch Meter Connection	\$100.00
1 Inch Meter Connection	260.00
1 1/2 Inch Meter Connection	500.00